

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01
XMB-02 /101 W
-----271311Z 130231 /23 45

R 271000Z DEC 76
FM AMCONSUL BORDEAUX
TO SECSTATE WASHDC 572
INFO AMEMBASSY PARIS
USMISSION EC BRUSSELS
USDEL MTN GENEVA
USMISSION GENEVA
AMCONSUL LYON
AMCONSUL NICE
AMCONSUL STRASBOURG
AMCONSUL MARSEILLE

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EO 11652: NA
TAGS: EAGR, ETRD, FR
SUBJ: COGNAC

1. SUMMARY: COGNAC PRODUCERS ARE FRUSTRATED OVER WHAT
THEY CONSIDER TO BE CONTINUING USG SINGLING OUT OF THEIR
PRODUCT IN RETALIATION AGAINST UNRESOLVED AGRICULTURAL
TRADE ISSUES IN MTN OVER WHICH THEY FEEL THEY HAVE LITTLE
INFLUENCE. THEY CONSIDER USG ACTION MISPLACED SINCE IT
IS NOT LIKELY TO BRING EFFECTIVE PRESSURE TO BEAR ON
OVERALL EC NEGOTIATING ON POULTRY ISSUE.
OFFICIALS IN THE CHARENTE REGION ARE CONCERNED OVER
LOCAL POLITICAL IMPLICATIONS USG ACTION AND THERE IS
SOME LIABILITY OF USG ACTION BECOMING SCAPEGOAT FOR
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COGNAC'S STRUCTURAL PRODUCTION AND MARKETING ILLS.
END SUMMARY:

2. AT INVITATION OF NATIONAL BUREAU OF COGNAC, I VISITED
COGNAC ON DECEMBER 9 TO MEET WITH LOCAL OFFICIALS AND
GROWERS TO DISCUSS RECENT USG ACTION RAISING LEVY ON

COGNAC. THE SUBSTANCE OF MY TALKS FOLLOWS:

3. REACTION OF LOCAL OFFICIALS AND PRODUCERS OF COGNAC IN CHARENTE REGION TO USG DECISION TO RAISE THE DUTY ON COGNAC IS ONE OF FRUSTRATION AND HELPLESSNESS IN FACE OF GREATER ISSUES INVOLVING MTN IN GENEVA. IN THEIR VIEW, USG RETALIATORY MEASURES AGAINST SPECIFIC PRODUCT OF COGNAC AFFECTS DIRECTLY ONLY ONE COUNTRY IN THE EC AND WILL NOT RESULT IN BRINGING SUFFICIENT PRESSURE TO BEAR ON EC NEGOTIATING POSITION AT GENEVA FOR GREATER ACCESS FOR US POULTRY. THEY CANNOT UNDERSTAND, IN EFFECT, WHY ONLY COGNAC CONTINUES TO BE SINGLED OUT AND WHY WE ARE NOT PRT NOT RETALIATING AGAINST, FOR EXAMPLE, DUTCH PRODUCT(S) SINCE NETHERLANDS ARE A MAJOR BENEDICARZ OF LIMITED ACCESS TO EC FOR US POULTRY. THEY CLAIM US POLICY THREATENS DEVELOPMENT OF A REGION (TWO CHARENTE DEPARTMENTS WHERE COGNAC IS PRODUCED) WHICH HAS TRADITIONALLY MAINTAINED PARTICULARLY GOOD TRADE RELATIONS AND CLOSE FRIENDSHIP WITH USA AND THAT LEFTIST-ORIENTED FARMERS ORGANIZATION, MODEF (MOUVEMENT DES ORGANISATIONS DE DEFENSE DES EXPLOITATIONS FAMILIALES) IS EXPLOITING SITUATION FOR POLITICAL ENDS. (IN FACT, MODEF ORGANIZED A DEMONSTRATION IN ANGOULEME ON DECEMBER 9 ON COGNAC ISSUE).

4. THEY STATED PM BARRE IS VERY DISTURBED OVER USG POSITION AND IMPLIED THAT USG DECISION WILL HAVE ADVERSE IMPACT ON OUR BILATERAL RELATIONS. I REPLIED THAT GOF FOREIGN TRADE MINISTER ANDRE ROSSI HAD ASKED TO SEE AMBASSADOR RUSH ON DEC 3 TO CONVEY GOF'S UNHAPPINESS OVER OUR ACTION. I TOOK OPPORTUNITY TO REITERATE US LIMITED OFFICIAL USE

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POSITION ALONG LINES OF AMBASSADOR'S STATEMENTS TO ROSSI PER REFTEL AND STRESSED FOLLOWING POINTS:

- A) US REDUCTION IN DUTIES IN 1974 WAS UNILATERAL MOVE WITH VIEW TOWARD RECEIVING INCREASED ACCESS TO EC POULTRY MARKET;
- B) SINCE MAY, 1974 EC HAS DOUBLED LEVEL OF PROTECTION ON POULTRY, THEREBY DISAPPOINTING OUR HOPES FOR IMPROVED MARKET ACCESS;
- C) WE REGRET SOLUTION HAS NOT BEEN FOUND TO THIS PROBLEM;
- D) HOWEVER, COGNAC GROWERS SHOULD REALIZE THAT US ACTION ON COGNAC IS A MODERATE AND MEASURED RESPONSE WHICH HAS NOT RESTORED DUTIES TO THE PRE-1974 LEVELS;
- E) ALSO, SPECIAL EFFORT WAS MADE TO HAVE NEW DUTIES ENTER INTO FORCE ON DEC 26 IN ORDER TO ALLOW MAXIMUM PRE-HOLIDAY SALES;
- F) EFFECTIVE INCREASE IN PRICE OF COGNAC PER BOTTLE IN RETAIL TRADE WILL NOT BE SUCH TO INHIBIT SALES IN ANY SERIOUS MANNER;

G) THESE MEASURES SHOULD INDICATE THAT USG HAS MADE COMPREHENSIVE EFFORT TO DIMINISH ADVERSE IMPACT OF NEW DUTIES ON COGNAC GROWERS;

H) FINALLY, THESE MEASURES DO NOT REPRESENT ANY DEPARTURE FROM US LIBERAL TRADE POLICY. ON THE CONTRARY, THIS IS A PARTIAL STEP AND WE HOPE THIS PROBLEM WILL BE DISCUSSED FURTHER AND SOLVED IN THE MTN MEETINGS IN GENEVA. IN SHORT, DOOR IS NOT CLOSED.

5. COMMENT. DESPITE GENERAL DISAPPOINTMENT OF COGNAC GROWERS OVER USG ACTION, THEY REALIZE USG HAS MADE EFFORT TO MODERATE ADVERSE IMPACT OF DECISION ON US SALES OF COGNAC. THEY AGREED THAT RISE IN PER BOTTLE RETAIL PRICE OF COGNAC AT NEW THRESHOLD LEVEL WILL BE BETWEEN APPROXIMATLY 60 - 70 US CENTS WHICH IS NOT PROHIBITIVE FOR A LUXURY PRODUCT. HOWEVER, THEY ARE EQUALLY CONCERNED OVER US CUSTOMS PROCEDURES AND WHAT THEY CALL US TARIFF DISCRIMINATION DUE TO THE "WINE LIMITED OFFICIAL USE

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GALLON RULE." THEY WILL PROVIDE ME WITH WRITTEN NOTES ON THESE TWO QUESTIONS WHICH I WILL SUBMIT BY AIRGRAM FOR INFORMATION OF DEPARTMENT, EMBASSY PARIS AND ADDRESSEE POSTS.

6. THEY AGREED ON IMPORTANCE OF KEEPING CHANNELS OF INFORMATION OPEN IN ORDER TO AVOID MISUNDERSTANDINGS OVER RESPECTIVE US AND FRENCH POSITIONS ON COGNAC/POULTRY ISSUE. THEY ARE RECEPTIVE TO OUR VIEWS AND SEEM WILLING TO AVOID, TO THE EXTENT POSSIBLE, POLITICISATION OF THIS ISSUE. NEVERTHELESS, WITH SURPLUS STOCKS OF COGNAC, BUILT UP OVER LAST FEW YEARS (SEVEN YEAR STOCK INSTEAD OF AVERAGE OF FOUR YEARS) AND INCREASING ECONOMIC DIFFICULTIES OF LOCAL GROWERS, US ACTION ON COGNAC DUTY CAN EASILY BECOME A SCAPEGOAT FOR COGNAC'S OVERALL PRODUCTION AND MARKETING PROBLEMS. AT A MINIMUM, LEFTIST ORGANIZATIONS SUCH AS MODEF CAN BE EXPECTED TO EXPLOIT THE ISSUE. AN EMOTIONAL REACTION CAN BE EXPECTED FROM EVEN MODERATE AND PRO-US GROUPS IN THE REGION. FOR EXAMPLE, THE PRESIDENT OF THE FRANCE-USA FRIENDSHIP ASSOCIATION IN ANGOULEME ISSUED A STATEMENT THAT BECAUSE OF THE USA ACTION HE WOULD NOT RENEW HIS CANDIDATURE IN 1977 AND THAT UNDER THE PRESENT CIRCUMSTANCES THE NATIONAL CONGRESS OF FRANCE-USA WOULD NOT BE HELD IN ANGOULEME IN 1977 AS SCHEDULED BECAUSE OF UNFAVORABLE LOCAL SENTIMENT TOWARDS THE USA IN THE WAKE OF USG RETALIATORY ACTION AGAINST COGNAC. AT THE SAME TIME, LOCAL GROWERS AND ORGANIZATIONS ARE ADOPTING A WAIT AND SEE ATTITUDE TO DETERMINE WHAT THE POLICY OF THE CARTER ADMINISTRATION WILL BE ON THE COGNAC/POULTRY ISSUE.

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